

Briefing Note on Local Government Pension Scheme (LGPS) Asset Pooling

Background

1. Lincolnshire County Council is the administering authority of the Lincolnshire Pension Fund, which is one of the 89 Local Government Pension Funds across England and Wales. Lincolnshire Pension Fund provides a pension service for 74,000 scheme members across 235 separate employers within Lincolnshire. The Fund is financed by contributions from employees and employers and holds assets valued at £2 billion (current value). These assets are invested to fund the current and future liabilities of pension payments.
2. The Government has mandated, within the LGPS (Management and Investment of Funds) Regulations 2016, enacted in November 2016, that the 89 separate LGPS Funds should combine their assets into a small number of investment pools. The basis of the pooling must be in line with guidance issued by the Secretary of State and meeting the four criteria set out below:
 - a. Benefits of scale - a minimum asset size per pool of £25bn.
 - b. Strong governance and decision making
 - c. Reduced costs and value for money
 - d. Improved capacity to invest in infrastructure
3. A detailed submission to Government was required by 15th July 2016 from each proposed investment pool, agreed by all Funds joining it. This would then be scrutinised by Government before being given approval that the submission met the criteria above. The Government requires that the investment pools should be operational and available to manage assets by April 2018.
4. The above regulatory changes do not affect the sovereignty of the Lincolnshire Pension Fund and the pooling of LGPS assets will have no impact on the employee contribution rates or pension entitlement of members of the fund (pensioners, current employees, and previous employees who are yet to draw their pension).

Lincolnshire Pension Fund's Solution

5. Lincolnshire Pension Fund is proposing to join the Border to Coast Pensions Partnership (BCPP) alongside 12 other Pension Funds, with assets totalling £35.9 billion, supporting 906,000 scheme members and 2,166 employers (as at 31st March 2015). The decision as to which pool to join was agreed at the Pensions Committee meeting held on 7th January 2015, having considered the alternative pooling options. BCPP has been created by like-minded funds, established around a few key principals:
 - One Fund one vote – regardless of size all Funds will be treated equally
 - Equitable sharing of costs

- To drive efficiencies and work effectively, partner funds must have a complimentary investment ethos, risk appetite and strategy

6. The partner funds within BCPP are shown in the table below:

BCPP Partners:	Fund Value at 31/03/2015 (£bn)
Bedfordshire Pension Fund	1.7
Cumbria Pension Fund	2.0
Durham Pension Fund	2.3
East Riding Pension Fund	3.7
Lincolnshire Pension Fund	1.8
North Yorkshire Pension Fund	2.4
Northumberland Pension Fund	1.1
South Yorkshire Pension Fund (including South Yorkshire Passenger Transport Fund)	6.5
Surrey Pension Fund	3.2
Teesside Pension Fund	3.2
Tyne and Wear Pension Fund	6.4
Warwickshire Pension Fund	1.7
BCPP TOTAL	35.9

7. BCPP will be a fully regulated asset management company, jointly owned by the 12 partner funds, with each Fund having an equal share in that company. It will have a large internal team of investment managers, in addition to appointing external managers. Its role will be to implement the investment strategies of the partner funds, through a range of investment sub-funds offering internally and externally managed solutions. The BCPP submission received approval from Government in December 2016.
8. In addition to being represented as a shareholder in BCPP, Lincolnshire will have a member on the Joint Committee, as a customer of BCPP.
9. The role of the LCC Pensions Committee will change very little, with the investment strategy and asset allocation (which accounts for around 90% of the Fund's investment return) remaining with that Committee, and BCPP only implementing that strategy in the most cost effective manner.
10. All costs of creating the company and the ongoing investment management costs will be paid for by the Pensions Fund, as a cost of investment, similar to how the Fund now pays its existing investment managers.
11. In the medium to long term the arrangement will generate significant annual savings - £1.7m pa under the worst case rising to £3.7pa best case. Pay back periods are 2 years best case or 4 years worst case.

Summary

As a partner fund in BCPP, pooling will:

- Ensure that Lincolnshire Pension Fund is not in breach of the Investment Regulations 2016. Pooling is not a discretion – it is now mandatory.
- Provide cost efficiencies (estimated to be £3.7m p.a. by 2028), by reducing investment management charges to the Pension Fund.
- Provide resilience to the management of the Pension Fund.
- Offer wider collaboration across other areas in managing the Pension Fund, by closer working with partner funds.

Pooling will not:

- Lose the sovereignty of Lincolnshire Pension Fund.
- Materially impact the decision making of the Pensions Committee.
- Impact the benefits (current and future) of the scheme members of the Lincolnshire Pension Fund.

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